

VZCZCXRO2326

PP RUEHDBU RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR

DE RUEHMO #1653/01 1020848

ZNY CCCCC ZZH

P 120848Z APR 07

FM AMEMBASSY MOSCOW

TO RUEHC/SECSTATE WASHDC PRIORITY 9163

INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY

RUEHXD/MOSCOW POLITICAL COLLECTIVE PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 001653

SIPDIS

SIPDIS

E.O. 12958: DECL: 04/12/2017

TAGS: PREL ECON ENRG HU RS

SUBJECT: RUSSIA-HUNGARY: WARMING TREND

REF: BUDAPEST 354

Classified By: Pol/Min Counselor Alice G. Wells. Reasons: 1.4 (b/d).

¶1. (C) Summary: Hungarian Prime Minister Ferenc Gyurcsany's late-March visit to Moscow continued the warming trend in relations between Russia and Hungary. Strong economic interests have been sufficient to overcome the historical legacy that dominates Russia's relations with some of its former satellites. Nevertheless, Russia did not get a much desired endorsement from Gyurcsany of Gazprom's proposal to expand the Blue Stream gas pipeline to Hungary. The two sides discussed diversifying trade, as well as a Russian proposal to construct a massive gas storage complex in Hungary, making it a hub for Moscow's expanding energy ties in Europe. An effort by Hungarian activists to remove a Soviet-era monument is unlikely to undercut improvements in the relationship, given overriding Russian interests in reestablishing influence in a former satellite and current EU and NATO member. End Summary.

BEYOND 1956

¶2. (C) Hungarian PM Gyurcsany's March 23 visit to Moscow and meetings with President Putin, PM Fradkov and Gazprom Chief Aleksey Miller was billed by both sides as a working visit, with less of the ceremony that accompanied previous trips and more business-like talks. References to the 1956 Hungarian uprising and subsequent Soviet crackdown did not grab headlines, as they did during Putin's 2006 visit to Budapest.

Economic and trade issues dominated the discussion. Aleksandr Olesov, chief of the MFA's Hungarian Affairs Section, told us that Moscow had seen "a marked improvement" in bilateral ties since Socialist PM Gyurcsany came to power. In his view, there were a lot fewer anti-Russian statements in the Hungarian press. "Both sides have gone beyond the difficult issues of the past and are now looking forward."

¶3. (C) The improved relationship is due in part to Putin's 2006 declaration in Budapest that Russians "feel some sort of moral responsibility" for the Soviet intervention, said Szabolcs Nagy, First Secretary at the Hungarian Embassy in Moscow. That statement was designed to overcome an emotional issue in the relationship, and make way for larger economic cooperation, Olesov told us. Another reason for the blossoming relationship is the fact that Hungary relies on Russia for about 80 percent of its gas needs, Nagy acknowledged.

GAZPROM LEFT WAITING

¶4. (C) Despite the improved relationship, Russia did not get a public endorsement from Gyurcsany of Gazprom's ambitious proposal to extend the Blue Stream gas pipeline through Turkey, Bulgaria, Serbia, Croatia and western Hungary, Olesov said. The Gazprom proposal had been criticized by many EU

members as a project designed to undermine the EU-proposed Nabucco pipeline, which would carry gas from Turkey to Austria. Gyurcsany had previously made public statements in favor of Blue Stream, though an official Hungarian position has not been announced. In Moscow, Gyurcsany said Hungary would wait for more details on the two projects. Putin told Gyurcsany that Hungary should consider both projects and select the one best suited to Hungary's needs, Nagy told us.

¶ 15. (C) During the meetings with both Putin and Fradkov, Gyurcsany raised Hungary's desire to balance trade between the two countries, Olesov said. Russia exports about USD 6 billion to Hungary annually -- mostly oil and gas. Hungary exports about USD 2 billion to Russia. The two also discussed ways for Russia to diversify its exports to Hungary beyond hydrocarbons. Putin raised the GOR's opposition to U.S. Missile Defense assets being deployed in Poland and the Czech republic, adding that the Russian side had been informed of U.S. plans but never consulted about them, Nagy said.

A LOT OF GAS

¶ 16. (C) Gyurcsany also met with Gazprom Chief Miller to discuss not only the Blue Stream pipeline, but also a Russian proposal to build a massive gas storage facility, with the capacity for 10 billion cubic meters of gas, Nagy said. The Russians promise to turn Hungary into a major European gas hub, Nagy said. He added that construction of the storage facility would be contingent on whether Hungary agreed to the Blue Stream project.

NO MONUMENTAL PROBLEMS

MOSCOW 00001653 002 OF 002

¶ 17. (C) While strong economic ties (and Putin's shrewd acknowledgment in Budapest of past Soviet sins) have acted as a salve in the bilateral relationship, this doesn't mean that history can be entirely ignored. One possible irritant are efforts by some Hungarians to force a referendum on the removal of a Red Army monument in central Budapest. An Estonian initiative to remove a prominent World War II monument in central Tallinn has sparked angry Russian rhetoric and threats of a deterioration in the relationship. While any effort to remove the monument in Budapest would provoke an outcry in Moscow, political commentators are doubtful that Russia's overall relationship with Hungary would suffer, given its strong economic underpinnings.

COMMENT

¶ 18. (C) The Russians have made a conscious effort to overcome historical differences with Hungary and concentrate on building a forward looking relationship, albeit one based largely on Budapest's reliance on Russian oil and gas. Moscow sees Hungary's dependence on Russia as an opportunity to influence a member of NATO and the EU. Russia's desire for gas storage facilities in Hungary is part of its efforts to reduce the leverage that Belarus and Ukraine have on gas transiting to Europe. Russia views the Blue Stream extension as key to preventing Caspian and Central Asian gas from reaching Europe via non-Russian controlled routes and will work hard to ensure that Hungary is offered the sort of economic incentives that will encourage Budapest to accommodate Moscow's interests.

BURNS